



## Conference Report to Accompany S.Con.Res. 70 – Concurrent Resolution on the Budget for Fiscal Year 2009

### EXECUTIVE SUMMARY

The Budget Conference Report is being considered on the floor under a closed rule on May 21, 2008. The House Democrat FY2009 Budget Proposal (H.Con.Res.312) passed the House on March 13, 2008, by a vote of [212 to 207](#). The Senate, after voting on [42 amendments](#), passed its Budget Resolution (S.Con.Res.70) on March 14, 2008, by a vote of 51 to 44.

The Budget Conference Report increases total spending from \$2.936 trillion in FY 2008 to \$3.462 trillion in FY 2013. This is a total increase over five years of \$526 billion or 18 percent. It contains a \$21 billion increase in discretionary spending over the President's budget.

The Democrat FY2009 Budget Proposal also promises to increase taxes by \$683 billion over the next 5 years, according to the Congressional Budget Office. In order to offset increased spending, the Democrats will increase individual income tax rates, cut the child tax credit, bring back the marriage penalty, reduce small business tax credits, and raise dividends and capital gains taxes, which are detailed in this Conference Backgrounder on Budget and Taxes. It also fails to include meaningful entitlement reform.

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### FLOOR SITUATION

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The Budget Conference Report is being considered on the floor under a closed rule. The rule:

- Waives all points of order against the conference report and against its consideration.
- Provides that the conference report shall be considered as read.
- Provides one hour of debate on the conference report, equally divided and controlled by the chairman and ranking minority member of the Committee on the Budget.

The resolution was introduced by Senator Kent Conrad (D-ND) on March 14, 2008. The Senate passed S.Con.Res.70 by a vote of 51 to 44 on March 14, 2008. The House passed its Budget Resolution (H.Con.Res. 312) by a vote of 212 to 207 on March 13, 2008.

The bill is expected to be considered on the floor on May 21, 2008.

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### BACKGROUND

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The House Democrat FY2009 Budget Proposal (H.Con.Res.312) passed the House on March 13, 2008, by a vote of [212 to 207](#). The House Democrat proposal would have increased taxes by \$683 billion over the next 5 years, according to the Congressional Budget Office. The Senate, after voting on [42 amendments](#), passed its Budget Resolution (S.Con.Res.70) on March 14, 2008, by a vote of 51 to 44.



The House and Senate went to conference to reconcile their respective bills on May 14, 2008. The conference agreement was filed on May 20, 2008. The House-passed proposal contained about \$3.5 billion more in discretionary spending than the Senate version.

The House-passed proposal also included reconciliation instructions for the Ways and Means Committee to report a bill to save \$70 billion in revenues in FY2009 with an offset over the FY2010 to FY2013 period, which could be used to pay for a one year patch of the Alternative Minimum Tax (AMT). The Budget Conference Report does not contain the reconciliation language included in the House-passed Budget. Instead, a provision was added that essentially creates a new point of order in the Senate against AMT relief unless offset with tax increases.

*Note: Reconciliation instructions are a feature of the budget process that provides a mechanism for directing committees to report specific legislation within a set time frame. Consideration of reconciliation legislation is governed by special expedited process that limits debate time and restricts amendments (therefore preventing a Senate filibuster).*

The House-passed version and the Conference Report both fail to include any entitlement reform. According to the Congressional Research Service, entitlement spending comprises more than 40% of the federal budget. Please find additional information on entitlement reform in [this Conference Backgrounder](#).

#### **Economic Growth Tax and Relief Reconciliation Act of 2001 (2001 REPUBLICAN TAX CUTS)** [CBO Estimate, 5/26/2001](#)

- Reduces income tax rates for all taxpayers
- Marriage penalty relief for most middle class taxpayers
- Eliminates the death tax by the year 2010
- Pension reforms that increase tax-free IRA and 401 (k) contributions
- Tax refunds (\$300 for singles, \$500 for single parents, \$600 for couples)
- Doubles the child credit from \$500 to \$1000
- Increases the adoption tax credit
- Tax breaks for education expenses
- Increased the AMT exemption amount by \$2,000 (\$4,000 for married couples) for 2001 through 2004 (beginning of the AMT patch)

#### **The Jobs and Growth Tax Relief Reconciliation Act of 2003 (2003 REPUBLICAN TAX CUTS)** [CBO Estimate, 5/23/2003](#)

- Accelerate the 2001 Republican tax cuts on individual income
- Increase the child tax credit. For 2003, the increased amount (i.e., \$400 per child) was paid in advance with checks
- Temporary expansion of the tax relief for married couples
- Increase of alternative minimum tax exemption amount by \$4,500 for singles and \$9,000 for joint-filers for 2003 and 2004
- Temporary increase in small business expensing from \$25,000 to \$100,000 for 2003-2005;
- Temporary increase "bonus depreciation" for businesses to 50 percent
- Reduction of dividends and capital gains taxes for both higher and lower tax brackets. The dividend provision applies to both domestic and foreign corporations

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#### SUMMARY

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S.Con.Res. 70 would set the federal government's budget policies over the FY 2008 to FY 2013 period.



## **Title I: Recommended Levels and Amounts**

**Revenue:** The Conference Report recommends \$2.542 trillion in federal revenues for FY2008, which increases to \$3.471 trillion for FY2013. This is a total increase over five years of \$929 billion or 36.5 percent.

*Note: The House-passed resolution recommended \$2.546 trillion in federal revenues for FY2008, which increases to \$3.617 trillion for FY2013. While the Conference Report assumes the expiration of most of the Republican-led tax cuts from 2001 and 2003, it utilizes a budgetary gimmick to extend the child tax credit, the 10 percent tax bracket, and marriage penalty relief. In order to accomplish this extension, the conference report includes a "trigger" that requires certification of a surplus in order to extend any of the proposed tax relief provisions. If these extensions are not enacted, the Democrats will be imposing a tax increase of \$683 billion, which includes the income tax rate reductions, the capital gains and dividend tax cuts, marriage penalty relief, death tax relief, the increase in the child tax credit, and small business tax incentives.*

**Total Spending:** The Conference Report increases total spending from \$2.936 trillion in FY 2008 to \$3.462 trillion in FY 2013. This is a total increase over five years of \$526 billion or 18 percent.

*Note: The House-passed budget increases total spending from \$2.933 trillion in FY 2008 to \$3.459 trillion in FY 2013, which is a total increase over five years of \$526 billion or 18 percent.*

**Total Mandatory Spending:** The budget projects mandatory spending increases from \$1.883 trillion in FY 2009 to \$2.326 trillion in FY 2013. This is a total increase over five years of \$443 billion or 23.5 percent.

**Total Discretionary Spending:** The budget proposes increasing discretionary spending from \$1.183 trillion in FY 2009 to \$1.135 trillion in FY 2013 (excluding emergency spending).

*Note: Democrat proposal contains a \$21 billion increase in discretionary spending over the President's budget.*

**Deficit:** The deficit declines from a projected \$394 billion in 2008 to a projected surplus of \$10 billion in 2013. These deficit projections, however, do not include war funding, further stimulus packages, or fixes to the AMT.

**Debt Increase:** The budget resolution results in the debt limit growing by \$624 billion in 2008, the largest debt increase in history.

## **Title II: Reserve Funds**

According to CRS, "A reserve fund is a provision in a budget resolution that authorizes the chairman of the House or Senate Budget Committee to adjust the aggregate levels of revenue and spending in the budget resolution, and the spending allocations made to committees thereunder, as appropriate, if a specified legislative action occurs."

The Conference Report establishes reserve funds for 37 different legislative items (for the purposes of this legislative digest, only the 20 reserve funds that impact the House of Representatives are listed). The Conference Report sets aside no money for any of the reserve funds established in Title III, but instead requires either unspecified tax increases or unspecified spending reductions.



# LEGISLATIVE DIGEST

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State Children's Health Insurance (SCHIP) Program: The Conference Report includes the House-passed provision creating a reserve fund of \$50 billion over the 2008 to 2013 period for the SCHIP program. It requires unspecified offsets to cover the cost of this legislation.

Veterans and Servicemembers: The Conference Report includes a reserve fund similar to the one in the House-passed Budget to provide enhanced medical care for wounded or disabled military personnel or veterans. It also could be used to eliminate the offset between Survivor Benefit Plan annuities and veterans' dependency and indemnity compensation as well as increased benefits for Filipino veterans of World War II. It requires unspecified offsets to cover the cost of this legislation.

Education Benefits for Servicemembers, veterans, and their families: The Conference Report includes a reserve fund similar to the one in the House-passed Budget to cover the cost of expanding Montgomery GI bill education benefits for military personnel, veterans, their spouses, survivors, and dependents. It requires that any increased funding include unspecified cost offsets.

Infrastructure: The Conference Report includes a reserve fund similar to the one in the House-passed Budget to pay for increased investment in infrastructure projects. It requires for new spending to include a cost offset.

Renewable Energy and Energy Efficiency: The Conference Report includes the House-passed provision creating a reserve fund to cover the cost of tax incentives for renewable energy; increased energy efficiency programs; greenhouse gas reductions; training for green jobs; and carbon sequestration programs. It requires an offset for any new spending.

Taxes: The Conference Report includes the House-passed provision creating a reserve fund for tax relief including extension of the child tax credit, extension of marriage penalty relief, extension of the 10 percent individual income tax bracket, modification of the Alternative Minimum Tax (AMT), extension of the research and experimentation tax credit, extension of the deduction for state and local sales taxes, and a tax credit for school construction.

Alternative Minimum Tax (AMT): The Conference Report includes the House-passed provision creating a reserve fund for reform of the AMT.

*Note: Any AMT tax relief is required to be offset with unspecified additional tax increases. Unlike the President's budget or the House Republican Substitute, the Conference Report does not prevent expansion of the AMT. According to the Congressional Research Service, the AMT impacted fewer than 20,000 taxpayers when first implemented. In 2006 it applied to roughly 4.2 million taxpayers and was projected to affect over 23 million in 2007 prior to enactment of a one-year patch (P.L. 110-166) in December 2007.*

Higher Education: The Conference Report includes the House-passed provision providing a reserve fund for student loan programs for college students as long as it offset with revenue increases.

Housing: The Conference Report includes the House-passed provision creating a reserve fund for affordable housing that is to be offset by savings from reforming Fannie Mae and Freddie Mac.

Medicare: The Conference Report includes a reserve fund similar to the one in the House-passed Budget to increase the Medicare reimbursement rate for physicians. Unlike the House-passed resolution, the Conference Report covers a few more measures under this reserve fund, including reductions in Medicare beneficiary cost-sharing, outreach and enrollment in Medicare Savings Program and Medicare Part D, and limiting abusive marketing tactics by private insurers. It requires unspecified offsets.



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Medicaid, SCHIP, and Transitional Medical Assistance: The Conference Report includes a reserve fund similar to the one in the House-passed Budget to pay for legislative efforts to prevent and/or delay regulatory or administrative actions affecting Medicaid, SCHIP, and TMA.

Trade Adjustment Assistance: The Conference Report includes a reserve fund similar to the one in the House-passed Budget to expand the Trade Adjustment Assistance program and unemployment insurance benefits as long as it includes unspecified offsets.

Deficit-Reserve Fund for a 9/11 Health Program: The Conference Report creates a reserve fund for establishing a program, including medical monitoring and treatment, to address the adverse health impacts related to the September 11, 2001 attacks. This provision was not included in the House-passed version.

Secure Rural Schools and Community Self-Determination Act: The Conference Report includes the House-passed provision creating a reserve fund for reauthorization of the Secure Rural Schools and Community Self-Determination Act. It requires unspecified offsets for any associated costs.

San Joaquin River Restoration: The Conference Report includes the House-passed provision creating a reserve fund for San Joaquin River restoration and implementation of a water rights settlement for Navajo Nation as long as it is offset by unspecified revenue increases.

National Park Centennial Fund: The Conference Report includes the House-passed provision creating a reserve fund to pay for approved projects within the National Park System. It requires unspecified offsets for any associated cost.

Child Support Enforcement: The Conference Report includes the House-passed provision creating a reserve fund to increase enforcement of child support collection efforts.

Child Support Enforcement: The Conference Report creates a reserve fund to improve child welfare programs, expand the Temporary Assistance for Needy Families (TANF) program, or to provide \$5 billion for the child care entitlement to States.

Adjustment for Revenue Measures: Unlike the House-passed Budget, the Conference Report creates a reserve fund for legislation that would reduce revenues below the sum of the aggregate revenue levels for a five year period as measured against the CBO baseline for the most recent concurrent budget resolution. The measure can only become effective upon certification by the Secretary of the Treasury and the Director of the OMB that the reduction in revenues will not exceed the lesser of \$340.570 billion or 80% of the fiscal year 2012 and 2013 unified budget surplus.

*\*Note: This provision requires legislation that includes an extension of tax relief only if the Secretary of the Treasury and Director of the OMB certify that there is a surplus. If the certification is not met, the resolution requires the Chairman of the Budget Committee to eliminate the revenue reductions included in the resolution by raising the revenue aggregates -- which would then subject that revenue measure to a point of order under the Budget Act. Essentially, the resolution creates a new point of order against AMT relief unless offset with tax increases.*

## **Title III: Budget Enforcement**

Program Integrity Initiatives: The resolution allows allocation adjustments if legislation is reported designating funds concerning fraud initiatives in the following areas: 1) Continuing Disability Reviews and





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Supplemental Security Income Redeterminations; 2) IRS enforcement; 3) Health Care Fraud and Abuse Control Program; and 4) Unemployment Insurance Improper Payments.

Overseas Deployment and Emergency Needs: The legislation exempts funding for overseas deployments from counting as part of budget limits. It also exempts non-defense discretionary spending that is designated as emergency spending.

Advance Appropriations: The budget resolution provides a point of order for advance appropriations over a limit of \$27.558 billion in 2010. Accounts identified for advanced appropriations in the House for fiscal year 2010 include: Job Corps, Tenant-based and Project-based Rental Assistance, and Head Start. The Corporation for Public Broadcasting is the only account identified for advanced appropriations for fiscal year 2011.

## **Title IV: Policy**

Taxes: The Conference Report, like the House-passed resolution, calls for a tax increase to make up for lost revenue from reforming the AMT and extending some, but not all, of the 2001 and 2003 tax cuts.

Defense: The Conference Report, like the House-passed resolution, proposes a number of Defense policy priorities, including:

- That the Administration's budget requests no longer utilize emergency supplemental appropriations request to fund overseas military operations;
- That military readiness for the Armed Forces, particularly the National Guard and Reserve, is a high priority;
- That TRICARE fees for military retirees under the age of 65 should remain at current levels; and
- That U.S. missile defense should be funded at lower levels than the President's request

## **Title V: Sense of the Senate and Congress**

Veterans Health Care: The House supports excellent health care for current and former members of the United States Armed Services. The resolution assumes rejection of proposals from the President's budget for enrollment fees and co-payment increases.

Homeland Security: The budget resolution calls for homeland security spending increases above the President's requested level every year.

Long-Term Sustainability of Entitlements: The budget resolution notes that the Government Accountability Office and Congressional Budget Office have warned Congress that the Federal budget is on an unsustainable path and that Congress should take a bipartisan, bicameral approach, that also involves the executive branch and outside groups, to develop legislation to address the long-term fiscal challenges facing our nation.

*Note: The budget resolution recommends no step be taken concerning the rapid increase in health care costs for the Medicaid and Medicare programs.*

Waste, Fraud, and Abuse: The resolution calls on all committees to identify wasteful and fraudulent spending within their jurisdiction.

PAYGO: The budget resolution calls for an extension of PAYGO. This applies to not just spending but also taxes, including expiring tax provisions.



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Long-Term Budgeting: The budget resolution calls for consideration of the Financial Report of the U.S. Government during deliberation over budget policy.

Health Coverage: The budget resolution calls for legislation consistent with PAYGO that would expand access to health insurance and make it more affordable.

Pay Parity: The budget resolution calls for pay adjustments at the same rate for civilian federal employees and members of the uniformed services.

Subprime Lending and Foreclosures: The budget resolution calls for Congress to consider steps to address the rise in foreclosures.

Hunger: The budget resolution calls for Department of Agriculture programs that fight hunger to be maintained.

Sense of the House regarding the importance of child support enforcement: The resolution calls for legislative action to ensure that states have the necessary resources to collect child support.

Innovation Agenda: It is the sense of the Congress that "sufficient funding" be provided for programs on education and innovation. The increased funding is to support, among other things, initiatives within the America COMPETES Act to educate tens of thousands of new scientists, engineers, and mathematicians, and to place more math and science teachers in K-12 classrooms.

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## ADDITIONAL VIEWS

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**House Budget Committee Republicans**: "The Democratic budget contains the usual mix of higher taxes and higher spending--only more so. The Majority's 'new' fiscal blueprint, as reported by the Budget Committee, calls for an even larger tax increase than last year, totaling \$683 billion over 5 years. But the budget still manages to soak up the additional revenue with an array of proposals to expand government, setting in motion a vicious cycle of *ever-higher spending* chased by *ever-higher taxes*. Further, the Democrats fail to fully budget for Iraq and Afghanistan--*after criticizing the President's budget for the same thing*. The budget also *fails to rescue Social Security and Medicare* from the financial crisis that is now unfolding, despite repeated warnings that these and other entitlement programs are the largest threat to the budget and the U.S. economy." (Minority Views of the Committee Report, 3/7/08)

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## MOTION TO RECOMMIT

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Please find the Republican Motion to Recommit [here](#).

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## STAFF CONTACT

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For questions or further information contact Shea Loper at (202) 226-2302.